

### Session #3

## **Allocating Fair Share costs in a Rural Community: A Home-Grown Approach**

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### **Abstract**

Smaller communities, like their larger cousins, must modify their transportation networks to suit changes in demand. However, unlike larger communities, smaller communities may lack the ability to pay for these improvements, either through developer contributions or through an effective capital projects budget. With the availability of capital projects [grants](#) decreasing over time, small, rural communities are becoming even less able to perform necessary system improvements to keep pace with increasing demand. This presentation discusses the constraints facing small, rural communities and how two cities and a county worked together with the assistance of local citizens, integrating land use planning, transportation planning and a [geographic information system](#) and using a simple model to begin to allocate “fair share.”

## Allocating Fair Share costs in a Rural Community: A Home-Grown Approach

### The Issue

**Funding** transportation system improvements is a real challenge for any agency. For small, rural agencies, however, it can be nearly impossible. Rural communities have few resources upon which to draw to make the necessary improvements for handling even modest increases in traffic levels. When the communities experience sharp increases in growth, as has been the case with Washington's Central Okanogan Valley, transportation improvements may either lag far behind demand or never occur at all. The communities experience increased congestion and yet have limited means with which to address it.

This is not a new phenomenon, but effective mechanisms to deal with it are scarce. Some communities exact development impact fees or environmentally based mitigation fees to help compensate for individual projects' impacts on the existing transportation networks. In some cases, however, such as in Moreno Valley, California, development impact fees include amounts to remediate deficiencies in the existing roadway system. The development community's willingness to pay burdensome exactions to supplant local transportation improvements may be dwindling, as the increasingly loud call for "fair share" assessments would indicate. In areas where development has historically been allowed to occur without the assessment of impact fees, the creation of new impact fees may be especially difficult. Also, planning enabling laws in various states continue to be modified to narrow the scope for which **development impact fees** can be charged and often impose strict time limits for the expenditure of revenues raised by those fees.

As communities grow, the need for transportation improvements increases, but the capability of local communities to adequately fund new improvements and fix old problems is decreasing. This paper examines the efforts of a rural Washington community to develop a program identifying and designing needed transportation improvements while creating a system to fairly assess impact costs to new development projects.

### The Setting

North-central Washington State is rural and mostly arid, leeward of the Cascade Mountains and protected from the marine weather inflicted on the west side of the state. This area stretches northward from Wenatchee to the Canadian border, encompassing much of the Columbia River and the Okanogan Valley. Chelan County, Douglas County and Okanogan County comprise the North-Central Regional Transportation Planning Organization (RTPO), a little sister of metropolitan planning organizations (MPO). Though the land area, at roughly 83,000 square miles, is about 15% of the State's total, the three counties' combined population is only 120,000, or about 2% of the State's total. The vast majority of that population resides in the metropolitan area surrounding Wenatchee and in the larger towns in Chelan County.

Much of the land is undeveloped, publicly held or devoted to agriculture. Those people residing outside of the region's larger cities generally are clustered in smaller towns in the Okanogan and Methow river valleys. These towns, the largest of which is Omak with a population of 4,600, have

historically been the commercial centers for the surrounding agricultural, timber or mining industry. In Okanogan County, where overall population density is just over one resident per square mile, the US Government and the State of Washington own over 27% of all land. The Colville Indian Reservation covers an additional 7,000 square miles of the southeastern county. This is a typical Western picture where small towns have grown up to serve the commercial needs of resource-based industry and where governmental land ownership in the shape of Indian reservations, national parks or national or state forests is significant.

State Route 97 runs south from the Canadian border through Okanogan County and along the Columbia River to Wenatchee. It continues south to the Oregon state line, passing through Ellensburg and Yakima along the way. Over time, this highway has become an attractive, less congested, international transportation alternative to Interstate 5 which runs along the western side of the Cascades. Okanogan County towns have begun to cater to the increasing highway traffic, locating commercial, medical, recreational and residential land uses along the highway corridor.

Most of the county's new commercial and residential activity has centered around the City of Omak, home of the annual Omak Stampede and Suicide race and the large lumber mill that has been the historic economic heart of the central Okanogan Valley. To the immediate south, the City of Okanogan, with just slightly over half the population of Omak, is the seat of county government with a commercial and industrial sector geared more toward the area's farming community.

Omak and Okanogan are connected by SR 97 and by SR 215, a highway paralleling SR 97 along the western side of the Okanogan River. While SR 97 runs through a predominantly rural portion of the community on the Colville Indian Reservation, SR 215 runs through the downtowns of each city, functioning as "Main Street" and carrying the highest traffic volume of any urban road segment in the County. In fact, the first traffic signal installed in Okanogan County, and the only one existing until 1995, was installed at the intersection of SR 97 and Central Avenue in downtown Omak.

As these two cities have evolved and become ever more interdependent, SR 215 has become an increasingly important and heavily traveled link. Commercial properties along the highway fetch premium prices and peak-hour traffic provides a show few expected to see in Okanogan County. As property values and traffic flows have increased, building has intensified and delays at road intersections have become prolonged. SR 215 is a new urban corridor in the middle of a rural community.

## **The Problem**

As development and traffic congestion increased, the need for significant improvements to SR 215 and to the roads feeding into it increased as well. The cities of Omak and Okanogan identified problem areas in their comprehensive and capital facilities plans, but neither town could afford to construct the improvements on its own. Additionally, much of the impact to the urban corridor appeared to be generated by development in unincorporated Okanogan County. New residential construction in Okanogan County added daily trips to the corridor, increasing congestion at intersections located in the two cities.

State Route 215 is a State highway, and all improvements within the right of way must be coordinated with or performed by the Washington State Department of Transportation (WSDOT).

Though the State tries to keep up with highway maintenance, it cannot afford to make the major improvements the current growth demands.

The cities of Omak and Okanogan, the County of Okanogan and the Colville Confederated Tribe of Indians, in conjunction with WSDOT, the North-Central RTPO and a collection of private citizens, property owners and local developers, met to try to identify and resolve the transportation problems SR 215 presents. This group, known as the Central Okanogan Valley Transportation Team, convened initially to study the traffic impact to the northern section of SR 215 as the result of upcoming commercial and residential development in North Omak and the nearby portions of unincorporated Okanogan County. This first study was to identify specific improvements, estimate costs and determine how to allocate those costs fairly across the community.

The initial study's recommendations, however, derived from traffic engineering methodology and standards, seemed to be skewed toward more urbanized solutions out of character with the community's rural nature. The recommendations also tended to address only those areas included within the initial project boundaries, leaving out otherwise attractive alternatives and complementary improvements to other parts of the neighboring circulation system. For example, this study recommended extremely costly right of way acquisition and widening for the SR 215 segment within the study area and ignored other alternative solutions just outside the study boundary that would achieve the same results without devastating a fully developed neighborhood.

The model used to determine the needed improvements was "capacity-driven", indicating specific capacity improvements needed to serve the expected increase in demand within a tightly-defined study area. This led to a series of recommended road and intersection improvements, but took into account no revisions to land use policy and no sharing of the projected traffic load outside the study area. It also did not consider the affordability of the individual improvements given the community's size, rate of development and capability to raise revenue.

As this initial study neared completion, it became apparent that other portions of the SR 215 corridor facing similar pressures needed to be included in a more comprehensive corridor study, and that the study's final recommendations needed to be more affordable, less capacity intensive, and more sensitive to the community's needs.

## **The Challenges**

The State of Washington has laws that guide the exaction and disposition of development impact fees by local agencies. There are two basic ways by which local agencies can collect payment from developers to offset impacts caused by their projects. The underlying theme for each method is that the exaction needs to represent a fair assessment of the fee based on the relative proportion of anticipated impact. Additionally, once an impact fee is collected, it must be dedicated to a specific public works improvement and then expended within a short time, usually within five years.

The two methods revolve around the state's Growth Management Act (GMA) and its State Environmental Policy Act (SEPA). In the case of GMA, only those agencies planning under GMA are allowed to charge impact fees. The philosophy is that only those agencies either large enough or growing fast enough to be concerned with funding needed public facilities are also those agencies required to plan under growth management statutes. The GMA also states that any collected

impact fees must be either expended on a specified project or returned to the developer with interest.

Impact fees collected under SEPA must be tied to the mitigation of a recognized environmental impact anticipated as a direct result of the project. The impact fees must be collected and used exclusively to mitigate the identified impact. If the funds are not used, they must be returned to the payer with interest.

Okanogan County is one of seven Washington counties not planning under Washington's GMA. Though its growth rate is slightly higher than 20% over ten years, its small population exempts it from the full GMA provisions. Because it is not planning under GMA, Okanogan County and the incorporated communities within Okanogan County cannot charge development impact fees.

SEPA could provide some ability to charge mitigation-related fees, but the actual amount of development would not be enough to ensure that any money could be expended on targeted improvements before that money would need to be returned to project sponsors. Though the growth rate in Okanogan County may have been 20% over the past ten years, it is still a small county. The real number of subdivisions and building permits is relatively low. Any significant public works improvement would require a high level of continuous development to amass an adequate amount derived from mitigation fees.

Neither the GMA nor the SEPA based impact fees would be appropriate for use in Okanogan County. Any successful program to fund public works improvements would need to be voluntary, where developers were assured that their contributions toward facility improvement were based on a fair share allocation based on the demand anticipated from their projects.

## **The Approach**

The two cities, the County and the Tribe joined with WSDOT and the RTPPO to more closely study the roadway improvements along the entire SR 215 corridor. The group also included one of the community's most prolific developers and several representatives from local businesses. This team identified eight potential trouble spots where regional traffic was having the most significant impact.

The underlying philosophy of this group's activity was to produce, at the least possible cost, a reasonable design alternative for each trouble spot and a method for the assessment of fair share costs to developers whose projects would likely impact those trouble spots. The creation of schematic designs for the trouble spots was intended to allow adjacent land owners with immediate development plans to proceed with their projects as long as they reserved right of way for the eventual improvement of the roadway according to the schematics. The assessment method, given the constraints on the imposition of development impact fees, was designed to foster voluntary contribution by developers of projects of regional significance and to demonstrate to what extent the existing development was responsible for improving the transportation network.

## **The Cost Allocation Model**

During the NWOTS, the COVTT used the "T model 2" to project traffic flows and to identify necessary improvements as traffic increased. As the SR 215 corridor study progressed, it became apparent to the team members that the "T" model would be an expensive one to maintain and that

its modeling approach might not identify the best or the most cost effective transportation system improvements. Additionally, with the completion of the schematic designs for the specific trouble spots, some aspects of the model, particularly regarding roadway capacity increase, became less important.

The community needed to develop a simpler model it could use at less expense. That model's main function would be to allocate fair share costs of the proposed schematic improvements to the development impacting those trouble spots. As the type or scope of the improvement would change over time, the model would be re-run to assess current fair share contributions.

This new cost allocation model borrows the traffic analysis zone (TAZ) concept from the "T" model to help forecast demand. Instead of using that forecast to determine necessary capacity improvements, however, it uses the forecast to allocate proportional cost responsibility based on the expected impact each TAZ will have on that specific improvement.

This approach circumvents one of the more costly and controversial components of the "T" model by assuming that the roadway design has already been established. By making this assumption, it places some of the responsibility of congestion management on the local land use authorities, encouraging trip reduction and system management over system capacity increases. As evidenced in the COVTT meetings, the community does not want to see wholesale increases in roadway capacity to meet forecasted traffic demand. It would much rather see techniques to spread future traffic across the existing network and to explore ways to reduce the impact of regional development on the local network. To make this model succeed, to keep fair share costs reasonable, and to reduce necessary capacity increases, the local land use authorities will need to consider trip reduction methods and to plan future land uses to rely less on the congested local network.

## The Case Study

The trouble spot examined in this paper is the intersections of Oak Street and Pine Street with SR 215 (Second Avenue) in downtown Okanogan. As the intersection is currently configured, a four-way stop exists at the intersection of Oak and Second, and a two-way stop, with Second having the right of way, exists at Pine. Oak Street brings traffic into downtown across the Oak Street bridge to the east, while Pine Street brings traffic into downtown from the hillside residential areas to the west. Second Avenue traffic waiting for the four-way stop at Oak causes traffic entering from Pine to queue until there's adequate separation on Second. At peak times, the wait at Pine can be up to one minute per car.

Much of the traffic using Pine Street originates from unincorporated county land west of the city and within Okanogan's proposed urban growth area. Pine Street is the terminus of a series of county roads providing access to thousands of acres of orchards and new large-lot residential development. It also provides primary access to the County Courthouse. Pine Street's traffic consists of a mix of private autos and a variety of farm vehicles, including full-size semi-haulers bearing apple bins or other agricultural supplies. As traffic on Second has increased, the inconvenience of turning movements from Pine onto Second has increased as well, motivating drivers to divert away from that intersection and use residential streets nearby.

The City of Okanogan recently approved a preliminary plat map approximately 1/2 mile west of this intersection, allowing the construction of up to 35 single-family homes. Though this trouble-spot intersection lies at the heart of Okanogan's downtown, the City and the developer agreed that the new subdivision would have some impact on the intersection and on the arterials (Pine Street and Orchard Grade) leading to it from the west. Though the developer agreed his project would have some impact on future conditions, he was not inclined to fund a "reachback" to help remediate the existing problems.

To help determine a fair share allocation for this particular project, the City of Okanogan borrowed the TAZ concept and made several assumptions in the creation and application of the new model. Those assumptions were:

- The TAZs represented areas of relatively homogenous traffic generation characteristics. Each individual TAZ was defined by an aggregation of census blocks and then differentiated by the type of development expected within each and the specific transportation network in place to serve each. This differentiation made it possible to assign total build-out trip generation for each TAZ, to identify which arterials would serve each TAZ and how the total trips generated within the TAZ would likely be distributed among the various arterials.
- Land development would occur in a manner, at the level of intensity and at a rate consistent with the comprehensive plan.
- The City of Okanogan, in conjunction with WSDOT, was responsible for remediating the current problems and that future developers would be responsible only for the accrued impacts expected to be caused by their projects.
- Project cost estimates would increase at a rate consistent with national inflation and fair share cost allocations for each project would be based on the prevailing costs to accomplish the improvement.
- Fair share allocations would be voluntary in nature, agreed to by the future developers as part of a "mitigation" agreement or other instrument not specifically tied to the State's growth management or environmental protection laws.
- Funds received by the City would be collected at the time of map recording and would be deposited in a reserve account dedicated to accomplishing the proposed improvements.
- Land use and transportation policies would complement the proposed improvement design, ensuring that the design used for estimating costs would not become functionally obsolete because of increased traffic flows.

The first step was figuring the proportion of future development in each TAZ conceivably linked to the trouble spot. To do this, the City used its desktop GIS program to calculate the total developable acres within each land use designation and to multiply that by each land use designation's expected development density. Once that was complete, the City estimated the proportion of future development to existing development within each TAZ and the relative

distribution from each TAZ to the trouble spot. Without haggling over the number of trips generated by each individual project, this method assigned proportional responsibility between already established uses within the TAZ and those that have yet to materialize.

When the City had reached this point, it needed to assign a proportion of the responsibility to fund the proposed improvements on areas within the TAZs and those outside the TAZ boundaries, mostly within already developed city limits. As a result, the City could assign relative responsibility for sharing the costs between the future developers and the City, presuming the City should bear responsibility for traffic generated by established land uses.

The next element of the cost allocation model was the estimation of the project costs. The estimates were based on 1998 dollars and would be accelerated annually to ensure that developer contributions remained equitable over time.

Finally, the prorated responsibility of each TAZ was multiplied by the project cost, resulting in an aggregate responsibility in dollars to be borne by each TAZ. Dividing that aggregated responsibility by the total anticipated future development within the TAZ provided an allocation per individual unit.

## Working It with the Numbers

### Step One - Determining levels of development in each TAZ:

This step calculates the projected growth within each TAZ and then subtracts existing development from that total growth figure. It then expresses the extent of future growth as a percentage of total future development.

<b>TAZ 1</b>	40 acres @ 4 du/ac =	160 units
	80 acres @ 2 du/ac =	160 units
	400 acres @ 1 du/ac =	400 units
	Units now existing =	<u>(8 units)</u>
	Growth projection	712 units
Growth proportion (712/720) 99%		

<b>TAZ 2</b>	160 acres @ 2 du/ac =	320 units
	80 acres @ 1 du/ac =	80 units
	Units now existing =	<u>(18 units)</u>
	Growth projection	388 units
	Growth proportion (388/400) 97%	

### Step 2 - Determining existing and future development responsibility

This step differentiates between what is a regional impact whose costs to remediate should be borne by a regional transportation authority and the local impact whose costs should be borne by a local authority, in this case the City of Okanogan. It then goes on to differentiate how that local share should be split between existing development and that growth expected in the future. The 80% and 20% figures for TAZ 1 and TAZ 2, respectively, represent their proportional



contributions to the trouble spot. In other words, 80% of all traffic originating from or traveling to TAZ 1 will pass through the trouble spot intersections.

Overall responsibility (based on trip counts)	
Regional share =	25%
Local share =	75%
Current/future responsibility (based on levels of development)	
City (developed) share	50%
Vacant share	50%
Prorated impact by TAZ (percentage of "vacant" share)	
TAZ 1	80%
TAZ 2	20%

### Step 3 - Project Costs

This step includes the cost estimates for each of the three elements of this particular project.

Part One - Consolidating curves	\$195,000
Part Two - Intersection realignment	\$216,000
Part Three - Street enhancement	<u>\$158,000</u>
Total Cost	\$569,000

### Step 4 - Cost allocation

This step brings it all together, allocating proportional costs for each TAZ, reducing that cost slightly to adjust for existing development within each TAZ, and then figuring the final cost for each new unit developed within each TAZ.

Total project cost	\$569,000
Local share (75%)	\$426,750
Vacant share (50% of local)	\$213,375
TAZ 1	
80% of vacant	\$170,700
99% for new growth	\$168,993
<b>Unit share (712 du)</b>	<b>\$237/unit</b>
TAZ 2	
20% of vacant	\$42,675
97% for new growth	\$41,395
<b>Unit share (388 du)</b>	<b>\$107/unit</b>

### Concluding Thoughts

This model was developed to provide a simple method for calculating a voluntary contribution toward solving local transportation problems. It was designed to be employed by a City Clerk, Permit Official, Planner, City Engineer or other official whose responsibilities are vast and whose time is limited. It was designed to eliminate the need to run a complex and costly model each time a new development was proposed. It was designed to follow a direct course in determining

allocations to help developers understand its methodology and be more willing to voluntarily contribute to the cause.

This model's drawbacks are that it presumes build out will occur as described in the current comprehensive plan, though revising the allocation would be a relatively simple matter if those land use designations were to change over time. It also requires long-term accrual of developer contributions before any improvement is made, providing those funds are the only revenue source for the project. It also requires, if the local agency is committed to improve facilities concurrent with development, that the local agency leverage itself to get the job done regardless of the level of developer contributions to date. However, any level of contribution would help if the local agency is required to establish a match portion before project funds could be either lent or granted.

The advantages are that it involves the development community in a voluntary program to fund a perpetual improvement reserve account. This frees it from the time limits imposed on the collection and expenditure of impact fees or mandatory mitigation payments. The model is easy to manage and, once run, is easy to use by any agency staffer for allocating individual unit contributions. Additionally, the concept has almost universal applicability to other infrastructure projects where a mix of established and future interests would be served by the improvement.